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SUBJECT: MY YEAR-END MEETING WITH PM KOSTUNICA

Classified By: Ambassador Michael C. Polt, reasons 1.4 (b,d)

¶1. (c) SUMMARY: I used my final meeting of the year with PM Kostunica to challenge him to do more to support our growing mil-mil relationship, to follow through on his government's commitments to key US investors and restitution claimants, and to urge him to provide reassurances of his commitment to engage constructively with us on Kosovo status implementation and its aftermath. His responses included a mild criticism of Tadic's appointment of General Ponos as CHOD and close adherence to his well-worn Kosovo points - that compromise is the only sustainable solution and Serbia is counting a growing list of European allies in this cause. His approach to my economic concerns was more positive, though, and the overall tone of the meeting was not confrontational. In short, the PM seems rather content heading into the holidays that he can engage in a low-key way on defense issues, stall on Kosovo, and focus on controlling a truncated election campaign season after the lengthy local holiday break. End summary.

DEFENSE ISSUES

¶2. (c) This meeting was my first opportunity to engage face-to-face with Kostunica since the PFP invitation. I reiterated our happiness at the outcome and reinforced to the PM our caution that Serbia not misinterpret the important gesture as anything other than what it is - a desire to reward defense reform, encourage greater efforts on ICTY, and support Serbia's democratic leaders at a critical moment. I told Kostunica that we would look to him to support a Presentation Document that clearly reiterates Serbia's commitment to full ICTY cooperation and to constructive engagement on the Kosovo settlement issue. I also congratulated him on the long-overdue appointment of General Ponos as Chief of the General Staff, noting the important effect this would have on military morale and clarity of command. Finally, I asked him to weigh in with the Justice Ministry to break the logjam that has held up the implementation of the GLOC for months, with an eye to having it ready for signature by ADM Ulrich at the MLO opening on December 18.

¶3. (c) Kostunica agreed that PFP was an important step forward in Serbia's relationship with the EuroAtlantic community. He said PFP was important on its own merits, but also as a precedent for relations with the EU, as it signaled the failure of the policy of conditionality. On the Ponos appointment, the PM appeared mildly put off, but not overly concerned. He said a better solution would have been to wait on such important decisions until after the authorities of the CHOD, the President, and the MoD had been codified in legislation under the new constitution - a process he said would have taken only a few months following elections. As it is, he noted, these decisions were taken in a legal vacuum

and were therefore problematic. He said he recognized the enormous political pressure the election campaign created for Tadic to make the appointments, but regretted that the president hadn't been more circumspect. He assured me, though, that he would not make a public issue of this. Kostunica promised to look into the GLOC issue, but did not respond to my comments regarding the Presentation Document.

ECONOMIC ISSUES

14. (c) I congratulated the PM on Serbia's intended signing of the CEFTA, noting our full support for this important regional initiative. I noted, though, that a number of key investors, including especially Phillip Morris, had complained that the CEFTA would have a significant negative impact on their sustainability, noting that many of the calculations on which they had based their investment decision had been seemingly undone in CEFTA. I encouraged Kostunica to find a way to allay Phillip Morris' concerns so that this important investor and employer could continue to be a "poster child" for investment in Serbia. I also took the opportunity to raise once again the standing request from US Steel that the Serbian government make good on its long-standing pledge to build a rail spur from the river to the mill. Finally, I asked the PM to look closely at pending restitution legislation, which currently would protect the interests of Milosevic cronies who were awarded state and private expropriated assets as political favors. I told him unequivocally that Serbia's legislation should look to protect the original owners, not those who profited from their loss. On all these issues, Kostunica promised to engage actively, and to follow up with Minister Parivodic to push for suitable resolution.

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KOSOVO

15. (c) Acknowledging that we had different expectations of the Kosovo status outcome, I urged Kostunica to reassure me and the international community that, however status resolved itself, the Prime Minister and his government would work actively and cooperatively with the international community to ensure responsible consequence management. I told him that meant more than promising not to stir up unrest; it meant to pledge to work actively with us to defuse tensions, prevent forced migrations, and to react quickly and appropriately to violence or potential violence. Kostunica responded that he still hoped for a compromise solution, and said Serbia remained willing to engage constructively on any solution that is in keeping with international law. He noted that Serbia has a growing list of supporters in Europe who also prefer a negotiated settlement to an imposed solution. He noted that the main danger of violence is not north of the Ibar, but south, and pointed out that it has not been Serbs undertaking violence so far.

ATMOSPHERE

16. (c) My conversation with the PM was friendly, despite our clear differences on Kosovo and military reform. He appeared comfortable with where the government and his party are on the eve of elections, and was unworried that a lengthy holiday pause would mean a truncated election campaign season. Kostunica only became animated when conversation turned to the recent visit of Serbia air force pilots to Aviano AFB to fly F-16's. I noted the positive press this and the previous USAF visit to Batajnica had garnered, noting it as perhaps an indication of Serbia starting to put the past behind it. Kostunica bristled at this, sharply criticizing the Batajnica visit as premature and inappropriate for the same unit that bombed Serbia to be visiting the country. He was very clear that it is still "too early to put history behind us...no one will ever celebrate March 24 as a holiday in Serbia." I told him I disagreed that it was too early to look forward, and noted it

was important now to forthrightly assess Serbia's recent past and its relationship to the U.S. and the international community. I closed with the view that this relationship had to be based not simply on convenience or mutual gain, but on shared values which both sides were ready to proclaim. We wished each other happy holidays.

POLT